

# REPORT

## One Year of Implementation of the 2% Mechanism in Moldova

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## Introduction

Between 1990 and 2000, a number of countries from Central and Eastern Europe introduced mechanisms that allowed individuals designate 1% or 2% of their income tax to the nongovernmental sector. The percentage designation mechanism enabled an indirect funding of noncommercial organizations from the state as well as stimulated an improvement in the communication between such organizations and the public and an increased civic activism. In the Republic of Moldova, the “2% Law” that provides for the right to make percentage designations to noncommercial organizations was voted by the Parliament on 18 July 2014, and was subsequently amended in July 2016. On 30 November 2016, the Government passed the Regulation on the Percentage Designation Mechanism that enabled the implementation of the 2% law in Moldova starting with 1 January 2017 regarding the income obtained in 2016.

The report makes a retrospective of how the percentage mechanism was implemented in 2017, the first year of percentage designation, also making an overview of the information that was available during the preparation of this report in 2018. We analyzed how beneficiary organizations registered in the List of 2% beneficiaries and the publishing of this list by the Ministry of Justice; how the designation process took place upon the filing of income tax declarations between 1 January and 2 May 2017 and between 1 January and 2 May 2018; the results of the first year of designation – how many designations were made and how many of them were validated, who the recipients were and how much they received. The analysis also pointed out the potential of the 2% mechanism in terms of the number of persons entitled to designate and the amount of the designation such persons may designate from the income paid to the state. At the end, the authors of the analysis came with a number of conclusions and recommendations for improving the mechanism in order to comply with the needs of Moldovan civil society organizations (CSOs).

During data collection and analysis, the authors consulted the annual statistical report of the State Tax Service (STS) on percentage designations in 2017, which published the statistics set out by the 2% Regulation. Other sources were used as well, such as STS reports on the individual income tax in 2016 and 2017, and the information generated by the National Bureau of Statistics on its website. We made requests for information and received official answers from STS and from the Ministry of Finance. And we also analyzed the national legal framework on percentage designation.

In view of consulting CSO opinions, the authors conducted a survey in June 2018. The questionnaire was designed especially for the representatives of the noncommercial organizations that had interacted with the percentage designation mechanism as taxpayers or as beneficiary organizations. It included questions about the registration procedure and perceptions of the percentage designation procedure. Seventy-four persons, representatives of CSOs, participated in the survey. The answers to the questions asked have been statistically processed and are presented in short in the report.

## Executive Summary

The percentage designation mechanism or the 2% mechanism is a mechanism of indirect funding of the noncommercial sector by the state. This mechanism is not enough as such to ensure the sustainability of the noncommercial sector in Moldova. A study conducted in five countries that had adopted the percentage mechanism (Hungary, Lithuania, Poland, Romania and Slovakia)<sup>1</sup> showed that the amount received by these countries' CSOs through this mechanism along the years accounted for about 2% of the total CSOs budgets. The mechanism not only aims to have noncommercial organizations obtain financial benefits but also to enhance their communication skills and civic activism.

The year 2017 was the first year in Moldova when individual taxpayers had the right to designate 2% of their income tax to a noncommercial organization. A total number of 484 noncommercial organizations managed to register in the List of 2% Beneficiaries (413 associations, foundations and private institutions and 71 religious cults and component parts). Circa 40 organizations were refused to be included in the List due to not meeting the eligibility criteria or having debts to the public budget. The total number of organizations registered for the mechanism accounts for about 5% of the total number of noncommercial organizations registered in Moldova until December 2017. Of the 484 organizations registered in the List of 2% Beneficiaries in 2017, 302 (62%), received percentage designations.

In 2017, 21,204 taxpayers decided to use their right to make a percentage designation. They account for 11% of the total number of taxpayers who filed their income declarations in due time in 2017. Forty four percent of the taxpayers who designated did not have the obligation to file an income declaration but chose to do it in order to make a percentage designation. Of the total number of 21,204 designations made in 2017, 16,182 (circa 76%) were validated by STS, while 5,022 (circa 24%) were not validated. The main reason for not validating the designations was the presence of income tax debts. The 2% Regulation does not provide for notifying taxpayers either about the validation of designations or about the non-validation, or the reason for the non-validation. The high number of non-validations shows that it is a systematic problem and it is necessary to work out a mechanism of notification about such grounds for non-validation and the methods of verification and payment of income taxes. It is also necessary to notify the taxpayers who have designated about the validation or non-validation of their designations.

Circa 78% of all the designations were made in April and in the first two days of May 2017. In the last 9 days, between 24 April and 2 May 2017, 6,908 persons designated (33% of total designations). Most of the declarations by which percentage designations were made were filed as rapid declarations (19,181 designations or 90.5% of the total number). A nearly equal number of taxpayers designated 2% through electronic declarations (1,043 or 4.9%) or in hard copies (980 or 4.6%).

In 2017, the total amount designated by taxpayers until validation amounted to MDL 4,140,868.43 (circa USD 244,588/EUR 210,090<sup>2</sup>). Of this amount, MDL 2,821,243.60 (circa USD 166,642 / EUR 143,138) were transferred to the beneficiaries after the validation of the designations (i.e. circa 68% of the total amount designated). The amount of non-validated designations represents MDL 1,319,624.83 (circa USD 77,946 / EUR 66,952), which accounts for circa 32% of the total amount designated).

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<sup>1</sup> Assessment of the Impact of the Percentage Tax Designations: Past, Present, Future, edited by Boris Strečanský and Marianna Török, 2016, <http://taxdesignation.org/regional-synthesis-report/>.

<sup>2</sup> At the official exchange rates of 25 June 2018: USD 1 = MDL 16.93; EUR 1 = MDL 19.71, <http://bnm.md/ro/content/ratele-de-schimb>.

On the average, in 2017, each taxpayer designated MDL 195 (USD 11.51 / EUR 9.89), of which MDL 174 (USD 10.28 / EUR 8.83) were validated. Each beneficiary on average received MDL 9,342 (USD 552 / EUR 474) after the validation of designation amounts.

Although CSOs and religious entities compete in the 2% mechanism, of the 302 organizations that received percentage designations in 2017, 86% (260) of the organizations were CSOs and about 14% (42) – religious entities. After the validation of the designations, CSOs accounted for 90% of the amounts (MDL 2,543,114.45) and religious entities – for 10% (MDL 278,129.15).

Although only 29% of the taxpayers who designated 2% in 2017 were domiciled in Chişinău, the organizations having their premises in Chişinău received the highest number of percentage designations (13,486), which accounts for circa 83% of the total number of validated designations. Although the taxpayers residing in Chişinău designated circa 45% of the total amount validated, the Chişinău-based beneficiary organizations received the highest part of the amount - MDL 2,425,632.65 i.e. circa 86% of the total amount validated. The organizations of the rest of the country received MDL 395,610.95, which accounts for circa 14% of the total amount validated.

The biggest amount of percentage designation received by an organization in 2017 was MDL 1,374,555.89 (USD 81,190 / EUR 69,739), which represents 49% of the total amount validated and circa 54% of the amount validated for CSOs. The recipient of this amount was the Civic Association of Veterans and Pensioners of the Ministry of Interior of Moldova.

In 2018, the number of designations increased by 38% (29,271 of taxpayers). Of the total number of taxpayers who made percentage designations in 2018, 13,513 taxpayers did not have the obligation to file the CET15 declaration but chose to do it in order to make percentage designations, which represents 46% of the total number of designations made in 2018 and an increase of circa 45% compared to 2017. A better informing about the 2% mechanism is needed, both from the beneficiary organizations and from the authorities.

In 2018, the number of organizations who signed up for the mechanism and had the right to receive 2% also increased. If the list of 2% beneficiaries published by the Ministry of Justice in 2017 included 484 organizations, it included 594 organizations in 2018, which represents an increase of circa 23%.

The potential of the 2% mechanism in Moldova is much higher. In 2017, only 1.7% of the taxpayers entitled to designate exercised their right (21,204 of taxpayers out of 1,219,500). In 2018, this number increased to 2.4% (29,271 of taxpayers out of 1,207,500), which shows a growing trend. At the same time, in 2017, only 6.6% of the total amount available for designations were designated (MDL 4,140,868.43 of MDL 62,526,200).

## Abbreviations

2% mechanism:	Percentage designation mechanism
2% Regulation:	Regulation on the Percentage Designation Mechanism, approved by the Government Decision no. 1286 of 30 November 2016
CET15 declaration:	Income declaration
CSO:	Civil society organization
List of 2% Beneficiaries:	List of Beneficiaries of percentage designations published by the Ministry of Justice
NGO:	Public associations, foundations, private institutions
Religious entities:	Religious cults and their component parts
STS	State Tax Service

## Short Description of the 2% Mechanism

The percentage designation mechanism (the 2% Law) is an indirect way of providing financial state support to the nongovernmental sector. This law grants to individuals the right to designate each year 2% of their income tax that was supposed to reach the state budget to nongovernmental organizations or to religious entities that act in the public interest.

At present, similar mechanisms exist in Hungary, Poland, Slovakia, Lithuania and Romania.<sup>3</sup> In Moldova, the “2% Law” that provides for the right to make percentage designations was voted by the Parliament on 18 July 2014.<sup>4</sup> In July 2016, the Parliament improved the 2% mechanism.<sup>5</sup> On 30 November 2016, the Government passed the Regulation on the Percentage Designation Mechanism that is the enforcement tool for the “2% Law”.<sup>6</sup> The Regulation establishes the mechanism that individual taxpayers can use to designate 2% of their income tax to designation beneficiaries. The percentage mechanism has been enforced since 1 January 2017 for the income received in 2016.

There are two categories of percentage designation beneficiaries: NGOs, in the form of civic associations, foundations and private institutions, and religious entities, in the form of religious cults and their component parts who act in the public interest and comply with certain eligibility criteria established by the legislation. The 2% mechanism sets out equal rules for these two categories of beneficiaries upon registration in the 2% beneficiaries list, use and reporting on the percentage designation amounts, as well as the liability in case of legislation breaches.

An individual makes a 2% designation by filling in and filing the income declaration between 1 January and 30 April of each year. The designations are confidential. The beneficiary organizations are entitled to administrative costs from the sources received from the designations, which vary between 25 and 50%, depending on the amount received. The term for using 2% amounts is two years. At the end of the period of use, the beneficiary organizations must write a report on how they have used the amounts received from percentage designations. The reporting is to take place based on the sample form of the income declaration for noncommercial organizations (ONG17 form).

The mechanism provides for sanctions for the incompliant use of the resources received as percentage designations or for the failure to report on such amounts. The sanctions include administrative fines, an order to return the designation amounts used by violating the law and/or failure to report, and excluding the beneficiary from participation in the percentage mechanism for two years. The list of organizations removed from the mechanism is to be published on the website of the Ministry of Justice alongside the List of 2% Beneficiaries.

Each year, STS publishes a statistical report on percentage designations,<sup>7</sup> to include both general data and the list of all recipient organizations, showing the amounts received by them. Taxpayers are not notified about the validation or non-validation of their percentage designations but are entitled to request information in this sense from the STS.

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<sup>3</sup> Assessment of the Impact of the Percentage Tax Designations: Past, Present, Future, edited by Boris Strečanský, Marianna Török, 2016, <http://taxdesignation.org/regional-synthesis-report/>.

<sup>4</sup> Law no.158 of 18 July 2014 that amended the Tax Code no.1163 of 24 April 1997, Law no.837 on Civic Associations of 17 May 1996, Law no.125 on Freedom of Conscience, Thinking and Religion of 11 May 2007 and Contraventions Code no.218 of 24 October 2008, available at <http://lex.justice.md/md/354331/>.

<sup>5</sup> Law no.177 of 21 July 2016, <http://lex.justice.md/md/366190/>.

<sup>6</sup> Government Decision no.1286 on Approving the Regulation on the Percentage Designation Mechanism of 2 November 2016, <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=367801>.

<sup>7</sup> State Tax Service, Statistical Report on Percentage Designation in 2017, [http://www.sfs.md/rapoarte\\_informatii.aspx?file=10257](http://www.sfs.md/rapoarte_informatii.aspx?file=10257).

The authorities with duties of implementation of the 2% mechanism are the Ministry of Justice, Ministry of Finance, STS, and the Financial Inspection.

## Registration of Organizations in the List of 2% Beneficiaries

Although the percentage designation mechanism has been in existence in Moldova since 2014, it became fully functional only in December 2016, when the Government passed the Decision for Approving the Regulation on the Percentage Designation Mechanism that is the tool for enforcing the 2% Law.<sup>8</sup> On 2 December 2016, the 2% Regulation was published in the Official Gazette and so, one could trace down the assessment of the efficiency of this mechanism to this date.

Further, we will analyze the main challenges but also the positive issues encountered by the mechanism's beneficiaries in the first year of its enforcement as well as certain aspects from the information obtained for 2018 (the second year of mechanism implementation).

### Late Publication of the 2% Regulation

The process of adoption of the new Regulation did not lack challenges. The mechanism was about to not be applicable in 2017 due to the delay in publishing it in the Official Gazette. Although developed by the Government as far back as at the beginning of November 2016, its publication in the Official Gazette kept on being postponed, which threatened the applicability of the mechanism in 2017. On 29 November 2016, 44 CSOs sent out a public call addressed to the Parliament and to the Government and requested that the 2% Regulation be published in an urgent manner in order to enable the enforcement of the 2% mechanism from 2017 for the income obtained in 2016.<sup>9</sup> Subsequently, the Government Decision was published in the Official Gazette on 2 December 2016, the last day when the Regulation could be put in implementation for the fiscal year 2016. The late publication of the Regulation negatively influenced the possibility of all organizations to familiarize themselves with the Regulation's provisions in the first year of implementation of the mechanism.

As a result of the late publication of the 2% Regulation, in the first year of implementation of the percentage mechanism, the period of registration for the List of 2% Beneficiaries coincided with the last days of 2016. Although the 2% Regulation sets out, as an exception, the registration of beneficiaries for the mechanism within 20 working days from the enforcement of the Government Decision (but not later than 31 December 2016), the month of December is quite problematic, since CSOs in this period are concerned with other activities, including reporting ones, but also due to the winter holidays. Thus, the registration in the first year of implementation lasted from 2 to 29 December 2016, and CSOS had limited time available to register for the mechanism. It is possible that this negatively influenced the registration of the beneficiary organizations for the mechanism.

### Pathway of the Registration Process

In order to benefit from the percentage designation mechanism, CSOs had to file a request for registration in the List of 2% Beneficiaries with the Ministry of Justice. The application form is available on the website of the Ministry of Justice.<sup>10</sup> Even if CSOs had limited time available for registration for the mechanism and little time to become acquainted with the provisions of the implementation Regulation, it looks like the registration procedure was not complicated. According to the respondents to the questionnaire for the evaluation of the percentage designation mechanism, addressed to the organizations registered for the mechanism, the procedure of registration at the Ministry of Justice

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<sup>8</sup> Regulation on the Percentage Designation Mechanism, approved by the Government Decision no.1286 of 30 November 2016.

<sup>9</sup> Public call for expediting the procedure of publication of the percentage designation mechanism – the tool for enforcing the “2% Law” – in the Official Gazette, available at: [http://crjm.org/wp-content/uploads/2016/11/16-11-29\\_apel\\_2procente.fin\\_.pdf](http://crjm.org/wp-content/uploads/2016/11/16-11-29_apel_2procente.fin_.pdf).

<sup>10</sup> The application can be accessed online at <http://www.justice.gov.md/slidepageview.php?l=ro&idc=214>.

was simple. Eighty eight percent of the interviewees considered the registration procedure little complicated or not complicated at all.

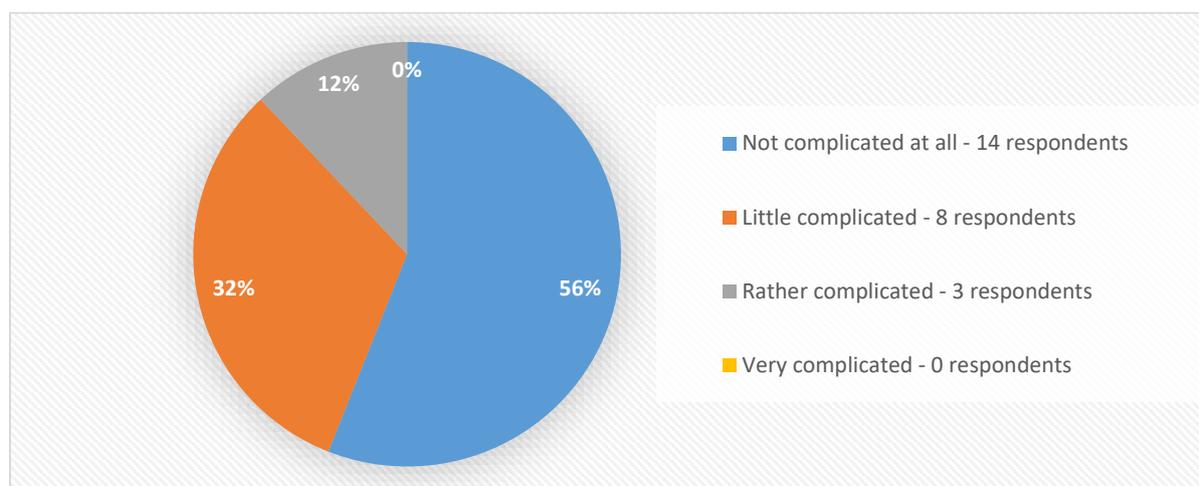


Figure 1. Perception of CSOs representatives of the registration procedure at the Ministry of Justice

The organizations that requested registration in the list of beneficiaries could file their request for registration directly at the Ministry of Justice or send it by email. This method positively contributed to facilitating the registration process. In some registered cases, the registration in the list of beneficiaries took place in one day. The organizations that filed their applications online later received confirmations about being included in the List of 2% Beneficiaries.

### Publication of the List of Beneficiaries of Percentage Designations

On 2 January 2017, the Ministry of Justice published the lists of percentage designation beneficiaries. Although the 2% Regulation provides for the obligation to publish a single list to include all the percentage designation beneficiaries, they were published as two separate lists.<sup>11</sup> It is possible that later this negatively influenced the percentage designation process as some taxpayers may have found it difficult to find the fiscal code of the organization to which they wanted to designate their 2%. To note that this issue was solved in the second year of implementation of the mechanism (2018).<sup>12</sup>

### Number of Potential Beneficiaries of Percentage Designations

In the first year of implementation of the percentage mechanism, a total number of 484 CSOs managed to register in the list of beneficiaries (413 associations, foundations and private institutions and 71 religious cults and their component parts). According to the information presented by the Ministry of Justice, approximately 40 organizations were refused registration in 2017, for the following reasons: (a) did not meet the eligibility criteria, or (b) had debts to the national public budget for previous fiscal periods. At the same time, several refusals were issued by the Ministry of Justice due

<sup>11</sup> See separate list published of beneficiary associations, foundations and institutions for 2017: [http://www.justice.gov.md/public/files/noutati/Ministerul\\_Justitiei\\_-\\_Lista\\_2p\\_-\\_2017\\_-\\_AO.pdf](http://www.justice.gov.md/public/files/noutati/Ministerul_Justitiei_-_Lista_2p_-_2017_-_AO.pdf); and the list of religious cults and their component parts: [http://www.justice.gov.md/public/files/noutati/Ministerul\\_Justitiei\\_-\\_Lista\\_2p\\_-\\_2017\\_-\\_Culte.pdf](http://www.justice.gov.md/public/files/noutati/Ministerul_Justitiei_-_Lista_2p_-_2017_-_Culte.pdf).

<sup>12</sup> List of 2% Beneficiaries for 2018 [http://justice.gov.md/public/files/don/2018/ianuarie/Lista\\_2p\\_20182201.pdf](http://justice.gov.md/public/files/don/2018/ianuarie/Lista_2p_20182201.pdf).

to the receipt of applications from organizations other than noncommercial organizations (e.g. limited liability companies).<sup>13</sup>

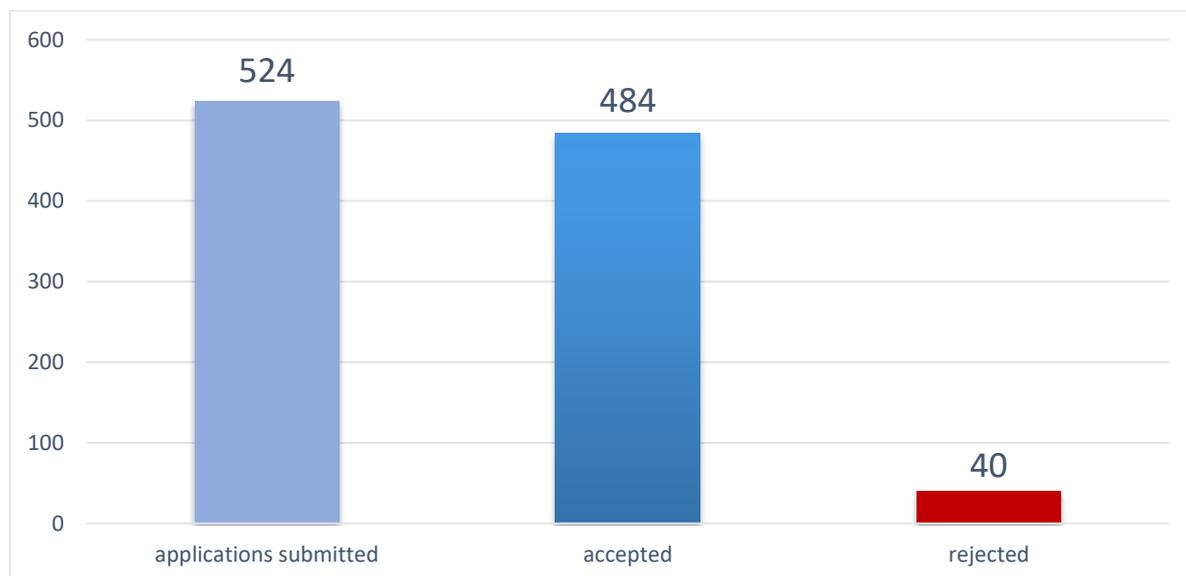


Figure 2. Total number of requests registered by the Ministry of Justice in December 2016

The total number of organizations registered for the mechanism represented circa 4% of the total number of noncommercial organizations registered in Moldova until December 2016. According to the State Registry of Noncommercial Organizations, 10,872 CSOs were registered at that date, and about 600 of them - in 2016.<sup>14</sup>

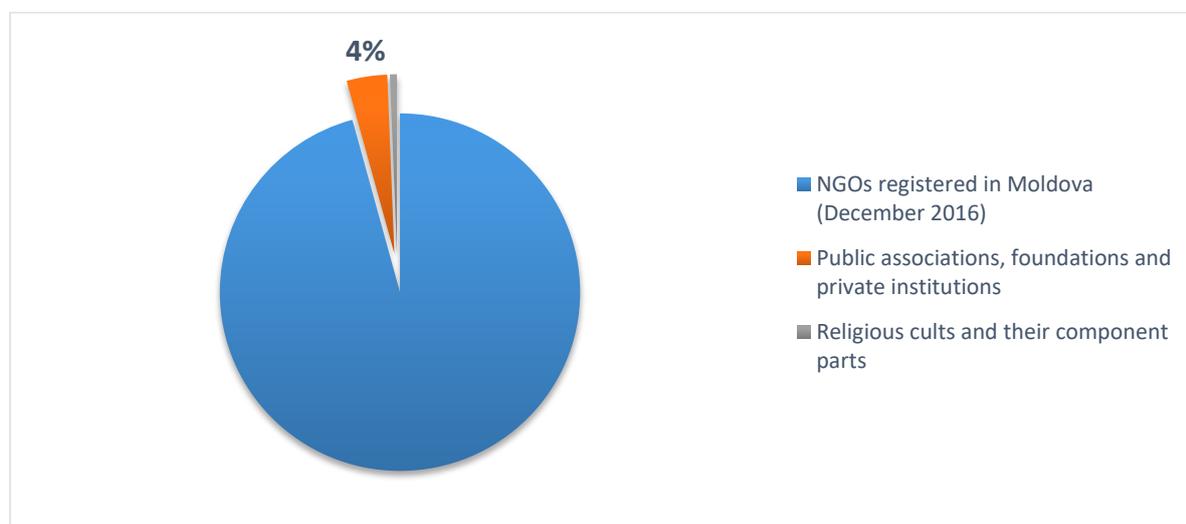


Figure 3. Co-relation of the number of organizations registered in the first year for the percentage mechanism and total no. of organizations registered in Moldova

<sup>13</sup> Ministry of Justice, press release of 2 January 2017 on the results of registration in the list of 2% beneficiaries, available at: <http://justice.gov.md/libview.php?l=ro&idc=4&id=3298>.

<sup>14</sup> USAID, Report, 2016 Civil Society Organizations Sustainability Index, Central and Eastern Europe, Eurasia, edition no. 20, July 2017, p. 158, available at: [https://www.usaid.gov/sites/default/files/documents/1866/CSOSI\\_Report\\_7-28-17.pdf](https://www.usaid.gov/sites/default/files/documents/1866/CSOSI_Report_7-28-17.pdf).

The total number of organizations registered for the mechanism in the first year of implementation represents a good result, taking into account the complicated period in which the registration took place (December) but also the fact that the mechanism was not known well yet by potential beneficiaries.

In the second year of implementation of the mechanism (1 to 30 September 2017), the number of organizations that registered for the mechanism grew by approximately 23% (in total 594 organizations). This may be due especially to the following: (a) the possibility of already registered organizations to already remain in the list without having to apply repeatedly; (b) information campaign for beneficiaries about the 2% mechanism; (c) full 30 day period (1-30 September) during which the beneficiaries could file their applications for participation.

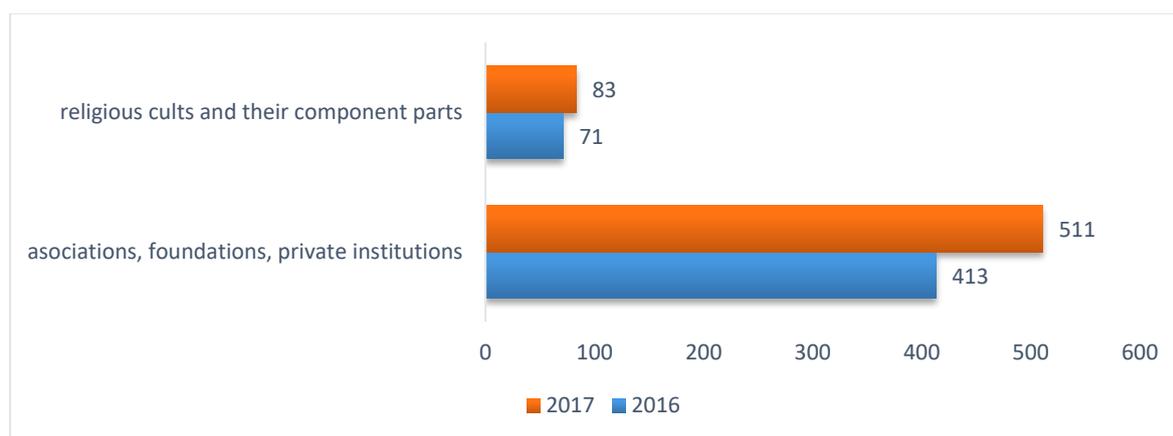


Figure 4. Comparative date (CSOs registered for the mechanism in 2017 and 2016)

The 2% Regulation provides that the beneficiary organizations included in the list of 2% beneficiaries in the previous years are automatically registered by the Ministry of Justice in the List of Beneficiaries for the following year provided that they do not have debts to the national public budget for the previous fiscal periods.<sup>15</sup> At the same time, it does not provide for the express obligation of the authorities to notify the organizations about the need to extinguish their debts.<sup>16</sup> This is a risk that the organizations who wish to further benefit from the mechanism but do not know about having certain debts to the budget may be removed from the list of beneficiaries. In 2018, the Ministry of Finance has drafted amendments to the 2% Regulation that, among others, include the express obligation of the authority to notify the already registered organization about the existence of any debts to the national public budget, and grant them time for removing this drawback, before excluding them from the List of 2% Beneficiaries.<sup>17</sup>

<sup>15</sup> p. 7 of the 2% Regulation, *quoted supra*.

<sup>16</sup> *Ibid*.

<sup>17</sup> Draft amendments for completing and amending the Government Decision no.1286 of 30 November 2016, <http://mf.gov.md/ro/content/proiectul-hot%C4%83r%C3%A2rii-de-guvern-cu-privire-la-modificarea-%C8%99i-completarea-hot%C4%83r%C3%A2rii-guvernului>.

## How the Percentage Designation Took Place in 2017

Starting with 2017, individuals can make percentage designations upon filing their income declarations (CET15 declaration). Any person who wishes to designate 2% must file their declaration even though they do not have such an obligation in accordance with the Tax Code.<sup>18</sup> In 2017, taxpayers could designate 2% of their tax on the income received in 2016 between 2 January and 2 April 2017, based on the List of 2% Beneficiaries published by the Ministry of Justice. In this period, 21,204 taxpayers decided to exercise their right to percentage designation.

### How did taxpayers find out about the designation?

When interviewed about how they had found out about the 2% mechanism, most of the respondents to LRSM's questionnaire on the assessment of the percentage mechanism said they had mostly found out about it from the media, TV or radio (18 respondents), the Internet, including social media (16 respondents) and seminars and trainings, conferences, information events carried out by CSOs (13 respondents). Another part of the interviewees said they had found out about the possibility to make percentage designations at their work place or from the Law, and only four respondents said they had found out about the mechanism from the Ministry of Justice or STS. Such information suggests that the authorities' role of informing about the possibility to participate in the percentage mechanism must be strengthened.

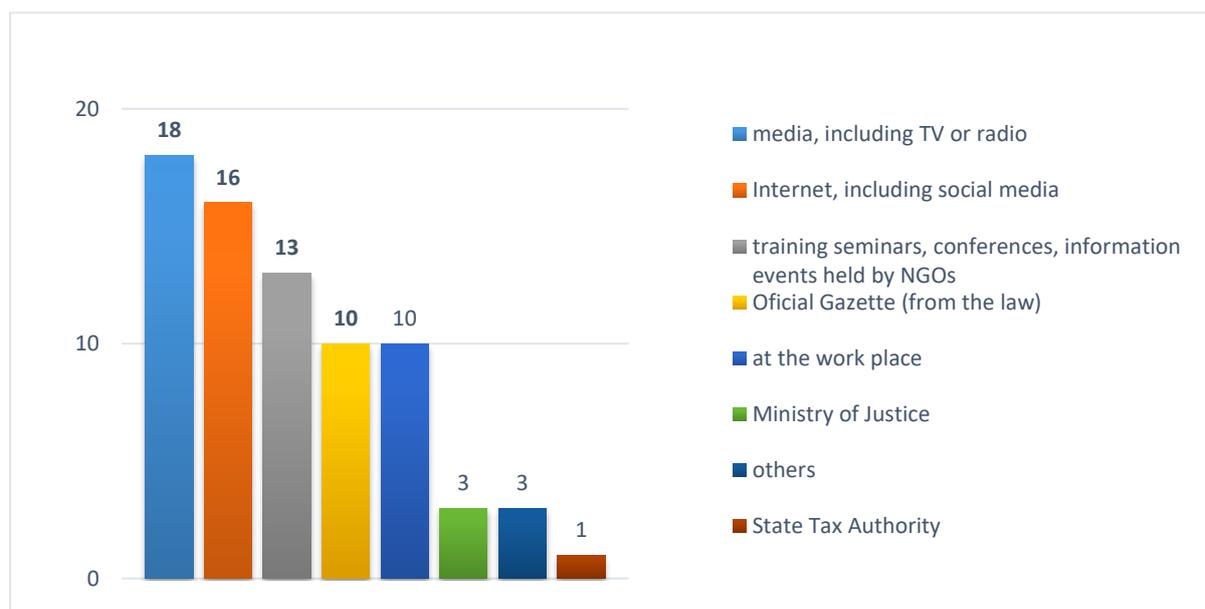


Figure 5. Sources of information about the possibility to designate 2% from one's income tax

### When did taxpayers choose to make the percentage designation?

Most designations were made in April and the first two days of May 2017 – 16,485 or circa 78% of all the designations. In the last nine days, between 24 April and 2 May 2017, taxpayers designated 6,908 times, which accounts for about 33% of all the designations. In the last 2 days (1 and 2 May 2017), 2,536 taxpayers made their percentage designations i.e. circa 12% of all designations. Such data are

<sup>18</sup> Art. 83 of the Moldovan Tax Code.

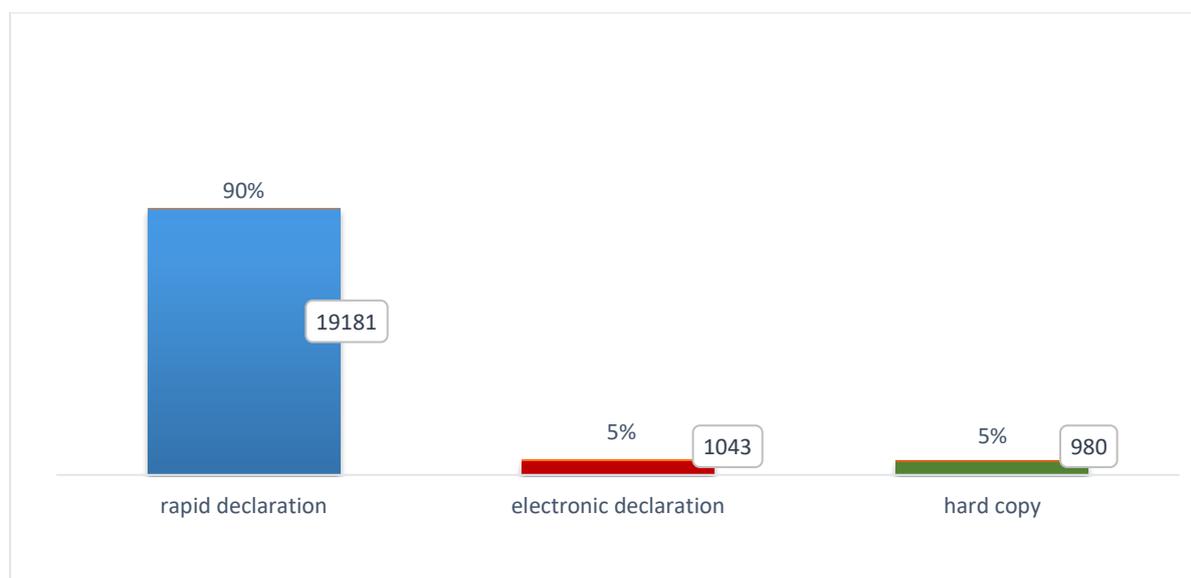
relevant for the beneficiary organizations who can decide when to carry out their 2% information and promotion campaigns.

**Table 1. Number of percentage designations made in 2017 by months**

Period 2017	Number of Designations		
	Total	Validated	Non-validated
January	1	0	1
February	107	60	47
March	4,611	3,208	1,403
April	13,949	11,037	2,912
May	2,536	1,877	659
24 April – 2 May	6,908	5,237	1,671
<b>Total</b>	<b>21,204</b>	<b>16,182</b>	<b>5,022</b>

**What is the way of percentage designation chosen by taxpayers?**

According to the 2% Regulation, one may file their income declarations using one of the following manners: (a) personally; (b) by mail; (c) online, using the electronic signature. According to the information provided by STS, most of the declarations were filed via the rapid declaration (19,181 designations or 90.5% of the total number) or via the electronic declaration (1,043 designations or 4.9% of the total number). At the same time, fewer designations – 980 (or 4.6% of the total number) – were filed in hard copies.<sup>19</sup>



*Figure 6. Manner chosen by taxpayers to make their percentage designations in the first year*

<sup>19</sup> State Tax Service, Answer no.7217 of 12 June 2018 to LRSM’s request.

## Taxpayer Experiences in the First Year of Designations

Asked to speak about how their percentage designation took place, the respondents to the LRSM questionnaire shared various experiences, both positive and negative:

*“The physical trip to the Tax Service took time and effort. But the tax officer took care of everything – I only presented my ID and then signed at the end.”*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

*[...] “Tax officers had a rigid and impolite attitude when asked additional questions about the percentage designation procedure, many of them don’t know, and refuse to take out the list of organizations registered to benefit from the 2% designated from one’s income tax.”*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

*“The Tax Service representatives/staff didn’t know about the 2% designations and/or didn’t wish to designate 2% for unclear reasons”*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

Based on some answers received, we can conclude that some taxpayers do not fully know about all the ways to be used to make percentage designations. Therefore, it is necessary to continue with broad campaigns about the 2% mechanism:

*“I didn’t even try to designate since my (physical) trip to the Tax Service implied time that I didn’t have. I didn’t know about the other ways to do it.”*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

*“Filling in of the form is a cumbersome process, some rubrics are not clear to everyone. Since the Tax Service has the pre-completed versions of the income tax declaration, it would be good to simplify the percentage designation procedure. This would encourage citizens to designate their 2%. At the same time, for the rural population, it would be simpler if they had to fill in a simplified questionnaire, without having to travel to the district center, which implies additional costs and discourages them.”*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

Some interviewees flagged irregularities in the designation process, such as certain persons’ intentions to influence taxpayers to designate their 2% to a certain organization, or generally, to not designate at all. This negatively affects the percentage designation procedure and poses a threat to the sustainability of the percentage designation mechanism:

*“It was organized at the directions of political and institution leaders e.g. at the beginning, we were promised that all the staff of one border police station and one police station would designate 2% to our NGO, but then we were told that unfortunately a directive had come from the CENTER that the 2% should be designated to an NGO indicated by them” [...]*

*Respondent in the LRSM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

*“People informed us that they were refused by the Tax Service because they had received directions to designate only to the NGO of police veterans.”*

*Respondent in the LRCM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

*“I remembered about the 2% designation upon leaving the Tax Service’s office. When I returned to fill in this information, the 2% rubric had been filled in for me.”*

*Respondent in the LRCM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

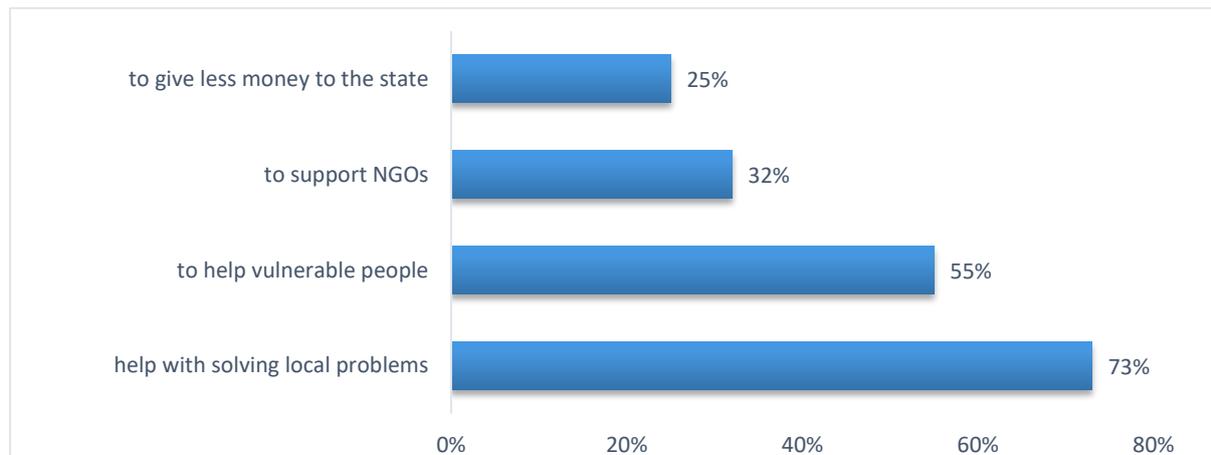
It is important to note that, at local level, some taxpayers also flagged the reluctance of local government representatives to have CSOs activities supported through the income tax. In one case, the taxpayer was called to not make a percentage designation, because the mayor’s office would later have less money to solve local problems:

*“Don’t designate because the mayor’s office will have less money to solve the local problems”*

*Respondent in the LRCM questionnaire addressed to the beneficiary organizations and taxpayers to evaluate the percentage designation mechanism*

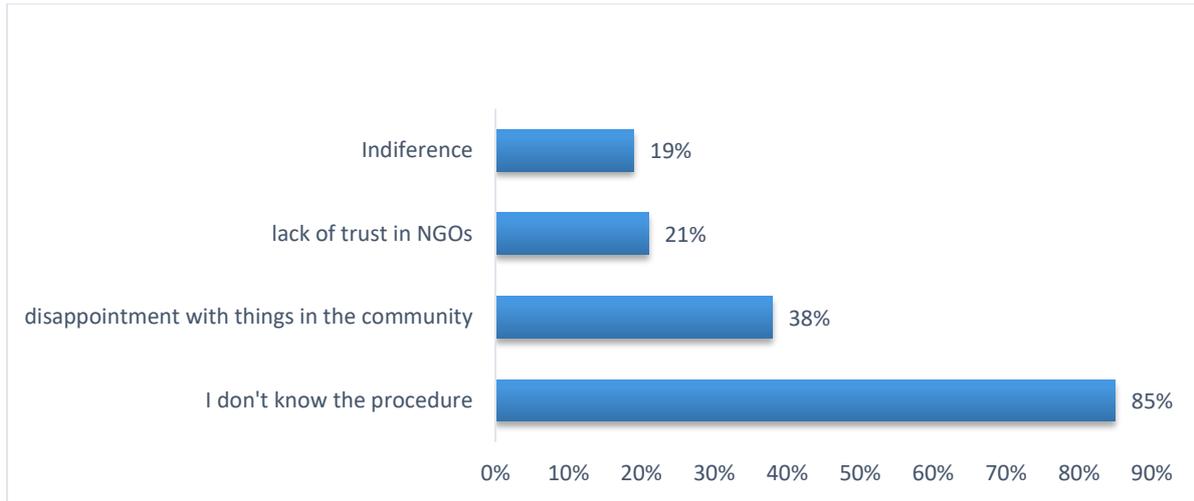
### **Taxpayers’ Perceptions of the 2% Mechanism**

A study conducted in 2017 by the Civic Association “Women and Children – Protection and Support”,<sup>20</sup> among others, identified the reasons why the taxpayers of the regions of Criuleni and Dubăsari had decided not to designate 2% of their income tax:

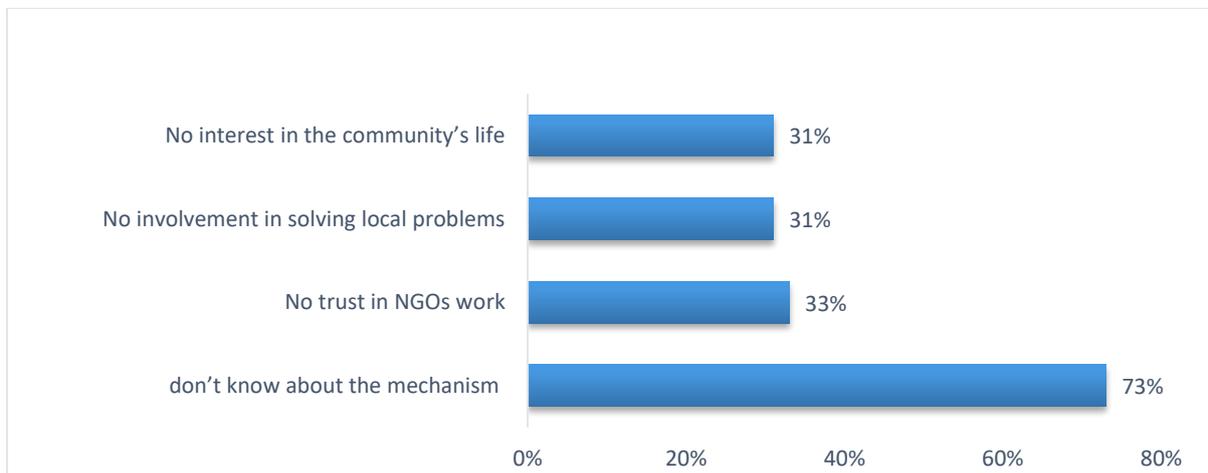


*Figure 7. Reasons why people designated 2%*

<sup>20</sup> Civic Association “Women and Children – Protection and Support. Determining Factors for Citizen Participation in the Percentage Designation Mechanism” (evaluation study), Chişinău, 2018, pages 20-22, [http://2procente.info/uploads/files\\_pages/03\\_2018/Factori\\_determinan%C8%9Bi\\_ai\\_particip%C4%83rii\\_cet%C4%83%C8%9Benilor\\_la\\_mecanismul\\_de\\_desemnare\\_procentual%C4%83.pdf](http://2procente.info/uploads/files_pages/03_2018/Factori_determinan%C8%9Bi_ai_particip%C4%83rii_cet%C4%83%C8%9Benilor_la_mecanismul_de_desemnare_procentual%C4%83.pdf)



*Figure 8. Reasons invoked for not designating 2%*



*Figure 9. Reasons invoked for refusing to designate 2%*

### **(Im)possibility for certain categories of people to make percentage designations**

In 2017, the 2% Regulation contained a restrictive provision that designations could be made only from the income stipulated in arts. 88-90 of the Tax Code (salaries, interests and services), although this was not provided in the Tax Code.<sup>21</sup> In this way, the persons that according to the law were entitled to designate, including individual entrepreneurs, lawyers, notaries and mediators, were excluded from the percentage designations. After the end of the designation period in 2017, on 3 May 2017, this restriction was removed from the 2% Regulation.

At the same time, the Government Decision no.511 of 5 July 2017 cancelled the CET15 declaration that was used in 2017. The Minister of Finance issued order no.102 on 3 July 2017 to approve a new CET15 declaration that was valid in 2018. In this form, the income obtained from professional or entrepreneurial activities are shown only in the informative section 5 and does not enable making percentage designations. As a result, the taxpayers who practice a professional or entrepreneurial activity could not make percentage designation either in 2017 or in 2018.

<sup>21</sup> See pt. 15 of the 2% Regulation, later amended by Government Decision no. 280 of 3 May 2017.

According to the Ministry of Finance's opinion,<sup>22</sup> such categories of people could make percentage designations only from the income subject to declaration (CET15 declaration) other than those to be shown in the declaration (DAJ17 Form). This, in fact, implies that it is impossible for these categories of people to participate in the percentage designation mechanism if they do not have income other than from their professional activity.

Excluding from the designation people who are entitled by the law to make it is not justified and negatively influences the mechanism's capacity to serve as an indirect source of funding for the noncommercial sector, because the possibility of the mechanism's beneficiaries to access additional funds from important taxpayer categories is limited.

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<sup>22</sup> Ministry of Finance, Answer 09/2-06/2016 of 18 June 2018 to LRCM request.

## Number of Percentage Designations

The year 2017 was the first year when individual taxpayers were entitled to designate 2% of their income tax to a beneficiary organization. 21,204 taxpayers decided to exercise this right and made percentage designations.

In order to designate 2% of the income tax, one is required to file their income declaration (CET15 declaration). Of the total number of taxpayers who filed the CET15 declaration in due time in 2017 (187,731 taxpayers),<sup>23</sup> 11% made percentage designations.

Of the total number of designations made, in 9,282 cases (44%), the taxpayers did not have the obligation to file income declarations. This proves a high interest in this mechanism from the first year of implementation.

In 2018, the second year of percentage designation, the number of designations increased to 29,271, which shows an increase of circa 38% from 2017. This represents circa 14% of the total number of taxpayers who filed their CET15 declaration (211,208).<sup>24</sup> Of the total number of taxpayers who designated in 2018, 13,513 taxpayers did not have the obligation to file the CET15 declaration but chose to do so in order to make percentage designations, which represents 46% of the total number of designations made in 2018 and an increase of circa 45% from 2017.

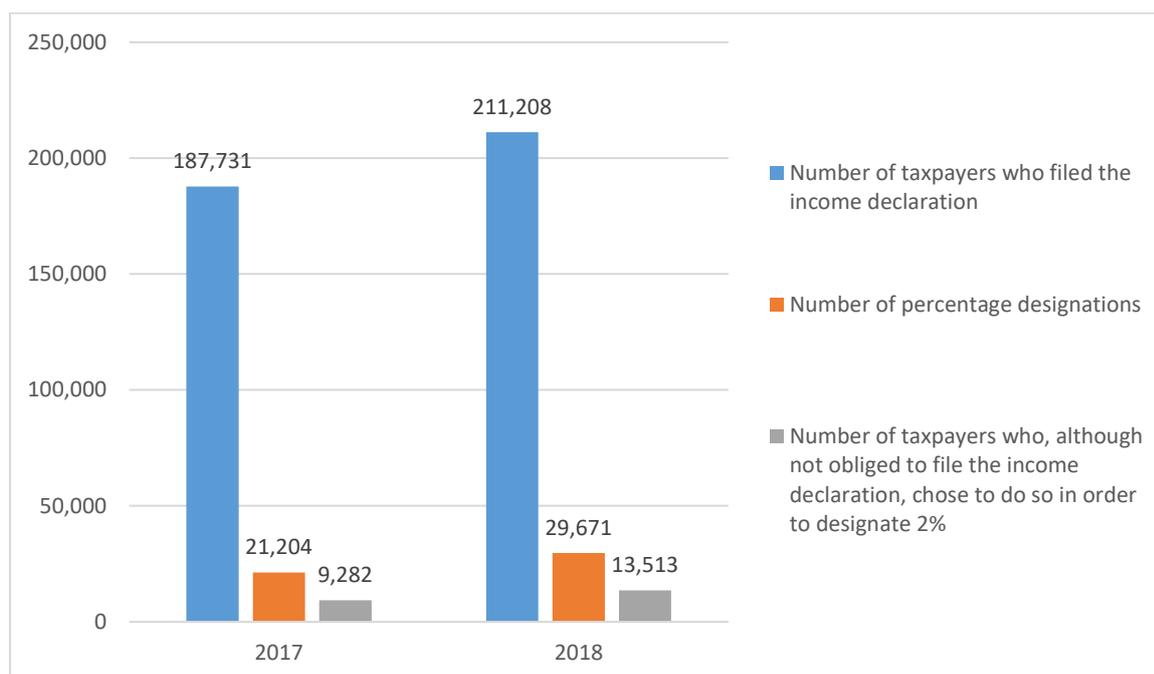


Figure 10. Number of percentage designations in 2017 and 2018

<sup>23</sup> State Tax Service, Individual income tax in 2016, 30 May 2016, page 3, <http://www.fisc.md/Upload/LinkedPDF/impozitul%20pe%20venit%20PF%202016.pdf>.

<sup>24</sup> State Tax Service, Individual income tax in 2017, 24 May 2017, page 5, [http://www.sfs.md/rapoarte\\_informatii.aspx?file=11170](http://www.sfs.md/rapoarte_informatii.aspx?file=11170).

## Validation of Designations in 2017

According to p. 20 of the 2% regulation, STS does not validate a percentage designation in the following five cases:

- 1) The individual filed their income declaration after the deadline established by the tax legislation;
- 2) The percentage designation beneficiary is not included in the Updated List of Beneficiaries, published by the Ministry of Justice;
- 3) The individual taxpayer has income tax debts for fiscal periods other than the one in which the percentage designation was made;
- 4) The individual taxpayer has not paid the income tax declared from which they made their percentage designation;
- 5) The individual taxpayer has indicated more than one beneficiary in their income tax declaration for the respective fiscal period.

Of the total number of 21,204 designations made in 2017, STS has validated 16,182 (circa 76%) and has not validated 5,022 (circa 24%).

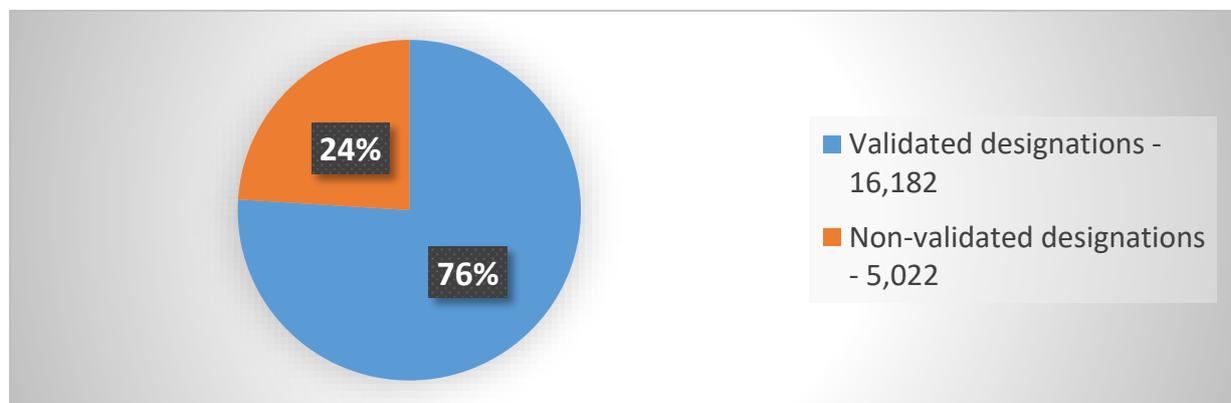


Figure 11. Number of designations validated and non-validated in 2017

Of the total number of 16,182 designations validated in 2017, 14,771 were made in favor of NGOs, while 1,411 – in favor of religious entities.

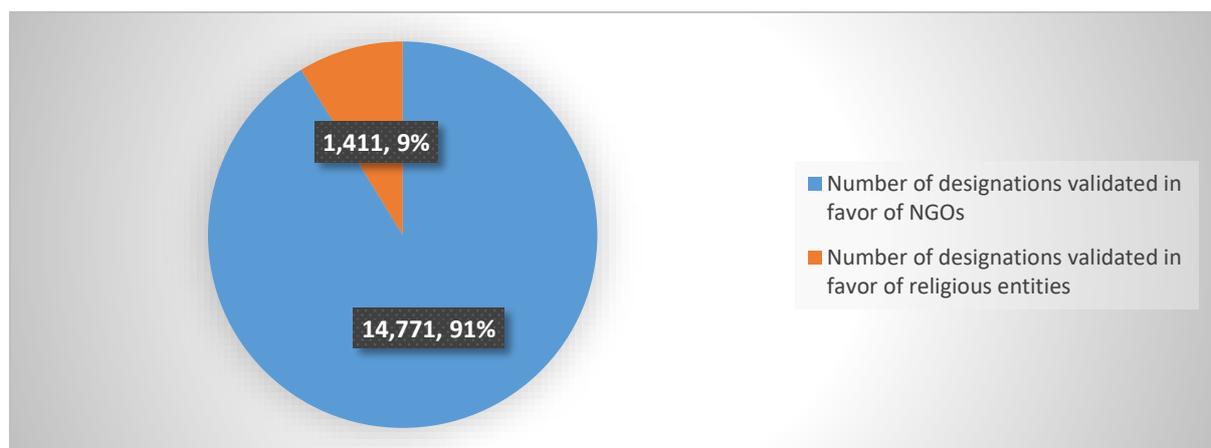


Figure 12. Number of designations validated in favor of NGOs and religious entities

The number of non-validated designations in 2017 is significant – 5,022 i.e. about 24% of the total number of designations.

According to STS, the reasons for not validating designations in 2017 were the following:<sup>25</sup>

- The percentage designation beneficiary was not included in the Updated List of 2% Beneficiaries, published by the Ministry of Justice (for 687 designations);
- The individual taxpayer had income tax debts for the fiscal periods preceding the one in which they made the designation (for 3,377 designations);
- The individual taxpayer had debts related to the income tax declared from which they made their designation (for 1,795 designations).

Thus, most of non-validations of percentage designations took place because of income tax debts. This proves that there is a systemic problem in place that should be solved.

In the countries where the 2% mechanism exists, taxpayers are informed about both the validation and non-validation of their designation. In Hungary, for instance, the tax authority informs taxpayers in a letter about having cancelled their designation and the reason why. The taxpayers are also notified when their designation took place. After making their transfer to beneficiary organizations, taxpayers receive notifications to their electronic account opened with the tax authority through which they filed their electronic declaration.

The 2% Regulation currently does not provide for a mechanism for notifying the taxpayers who have made designations about having validated or not validated their designations. This has led to confusion on the side of both the beneficiary organizations that were expecting higher amounts from the 2% designations and of the taxpayers who had designated. STS received a high number of requests for information from the taxpayers about the validation or non-validation of their designations, which implies involving additional resources to be able to cope with such a high number of requests. Having in mind that by 40% more people designated 2% in 2018 than in 2017, the wave of requests for information will increase each year. The costs of supplying answers to all the taxpayers may exceed by far the costs of information provided by letters only to the taxpayers whose designations have not been validated.

It is necessary to notify the taxpayers who make designations that their designations have been validated or not validated and the reason for the non-validation. The state will only have to gain from informing the taxpayers about the reasons for not validating their designations. If taxpayers are notified about the non-validation of their designations due to their debts to the budget, they would go pay their debts, which would increase the collections to the budget and would decrease the debts to the budget. In addition, informing the taxpayers whose designations were validated and the money has been transferred to the beneficiary organizations would reduce the number of requests for information, would increase the trust in the 2% mechanism and in the tax authority as well as would encourage taxpayers to use the electronic tax services.

To this end, different options could be used for informing the taxpayers whose percentage designations have or have not been validated:

- a. By mail or email – for the taxpayers whose designations have not been validated – about the non-validations and the reasons for it;
- b. By email or the electronic service “taxpayer’s single account” – for the taxpayers whose designations have been validated, after transferring the designation amount, mentioning the amount transferred and the name of the organization to whom the amount has been transferred.

Having in mind that the main reason for non-validating designations in 2017 was the existence of income tax debts, the following prevention measures could be taken:

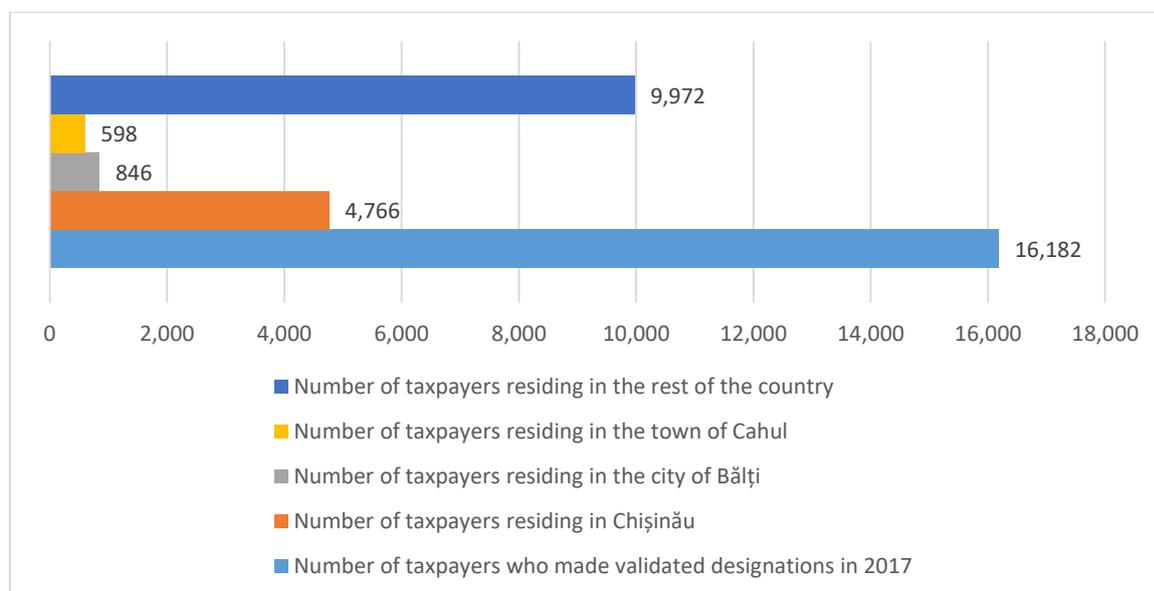
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<sup>25</sup> More than one reason for the non-validation may be presented for a designation.

- a. STS may instruct their tax officers that, when the taxpayer makes their designation directly in the territorial tax offices, to inform them about the reason for the non-validation, such as the existence of income tax debts and to suggest them to check the debts on the spot, or to inform them about the possibility to check their debts using the electronic governmental service Mpay.
- b. The electronic tax services do not provide much information about how to check one's income tax debts and pay them off. For example, the tax service "electronic declaration" does not include any information about how to check and pay income tax debts, although the electronic governmental service Mpay exists in this sense. It would be useful and easy to explain this under the rubric "electronic declaration". This would also ensure an intercalation of the electronic services developed by various governmental institutions.

## Taxpayers Profiles

Of the total number of individual taxpayers who made designations in 2017 that were validated (16,182), 4,766 were residing in Chişinău, which accounts for circa 29%. The following two groups of taxpayers who designated 2% were residing in the cities of Bălţi (846) and Cahul (598). From the rest of the country, 9,972 taxpayers made percentage designations.



*Figure 13. Distribution of the number of taxpayers who designated in 2017, by place of residence*

Although only 29% of taxpayers who designated 2% in 2017 were residing in Chişinău, Chişinău-based organizations received the highest number of percentage designations (13,486), which accounts for circa 83% of the total number of designations validated. Other 416 designations were designated to organizations in Bălţi and 366 – to Soroca-based organizations. For the organizations from the rest of the country, 1,915 persons made percentage designations.

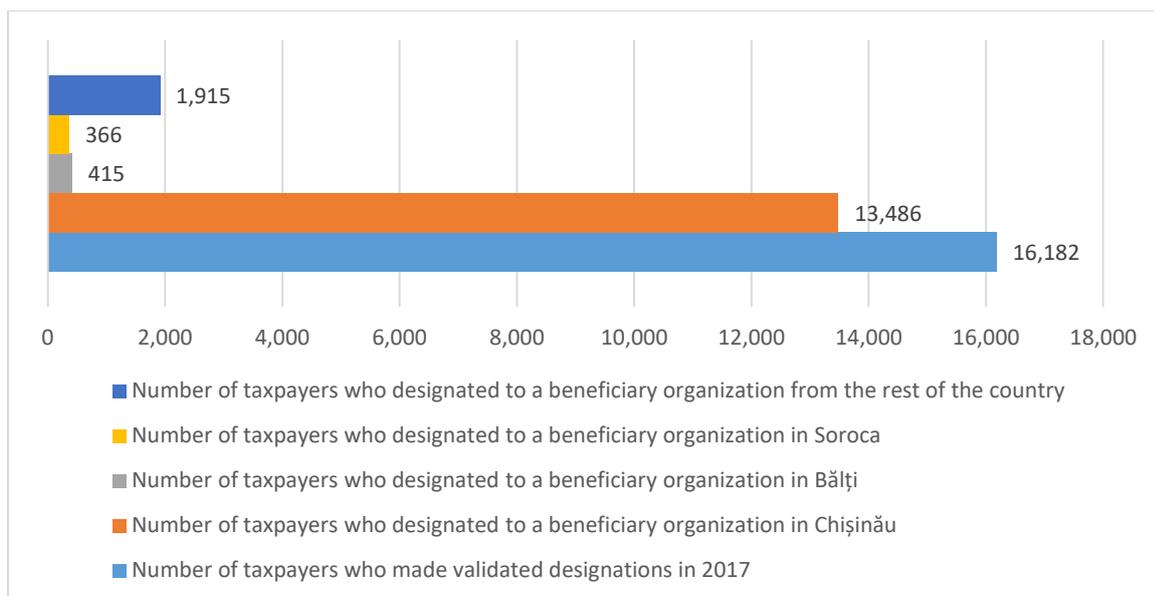


Figure 14. Distribution of the number of taxpayers who designated in 2017, by location of the beneficiary organizations chosen

As to the age of taxpayers who made percentage designations in 2017, most of them were aged between 31 and 50 (11,495 persons or circa 54%), followed by persons aged between 18 and 30 (5,921 persons or 28%). The 2% mechanism also raised the interest of persons aged between 51 and 70 (3,729 persons or circa 18%) but also of those beyond 70 (59 persons).

Table 2. Number of taxpayers who made percentage designations in 2017 by age

Age of taxpayers	Number of designations made		
	Total	Validated	Non-validated
18-30	5,921	5,129	792
31-50	11,495	8,624	2,871
51-70	3,729	2,387	1,342
> 70	59	42	17
<b>Total</b>	<b>21,204</b>	<b>16,182</b>	<b>5,022</b>

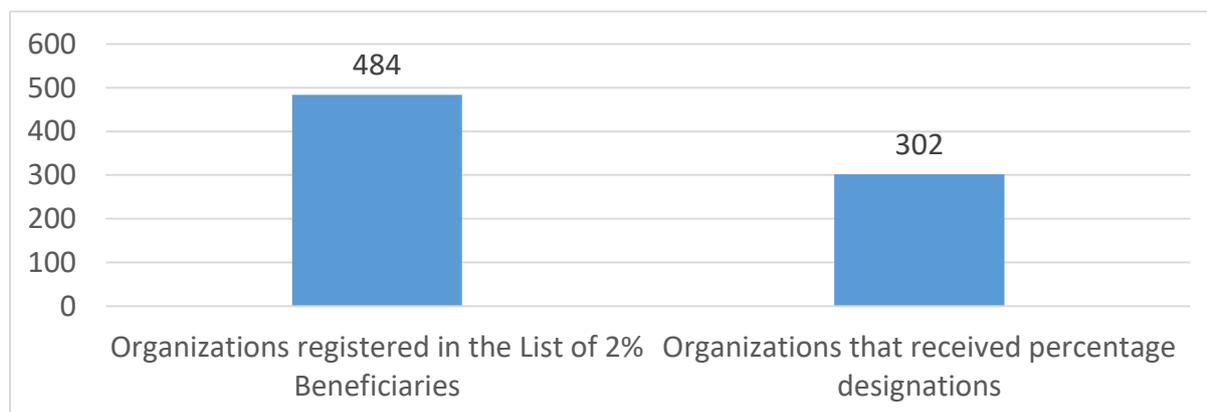
Most of taxpayers who designated in 2017 were men (14,058 or circa 66%). The number of women who designated was lower – 7,146 or circa 34% of the total number of taxpayers.

**Table 3. Number of taxpayers who made percentage designations in 2017 by sex**

Taxpayers' sex	Number of designations made		
	Total	Validated	Non-validated
Women	7,146	5,141	2,005
Men	14,058	11,041	3,017
<b>Total</b>	<b>21,204</b>	<b>16,182</b>	<b>5,022</b>

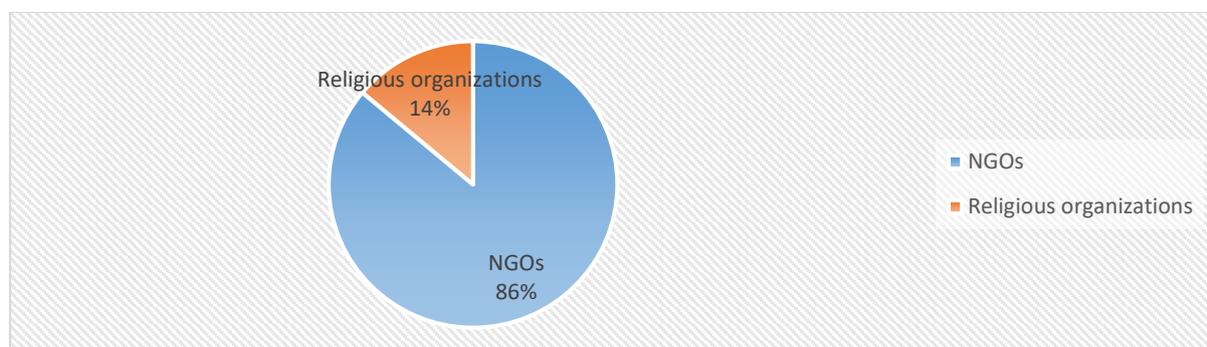
## Beneficiaries Profiles

Of 484 organizations registered in 2017 in the List of 2% Beneficiaries, 302 received designations i.e. circa 62%.



*Figure 13. Number of organizations beneficiaries of the percentage mechanism in 2017*

Of the 302 organizations that received percentage designations in 2017, 260 organizations were NGOs, accounting for circa 86% of all the beneficiaries, and 42 organizations represented religious entities i.e. circa 14% of the total number of beneficiaries.



*Figure 14. Categories of beneficiary organizations of the 2% mechanism in 2017*

202 beneficiary organizations, or circa 67% of the total number of beneficiaries who received 2% amounts in 2017 had their premises in Chişinău, while the rest of 100 organizations, or circa 33%, had their premises elsewhere in the country.

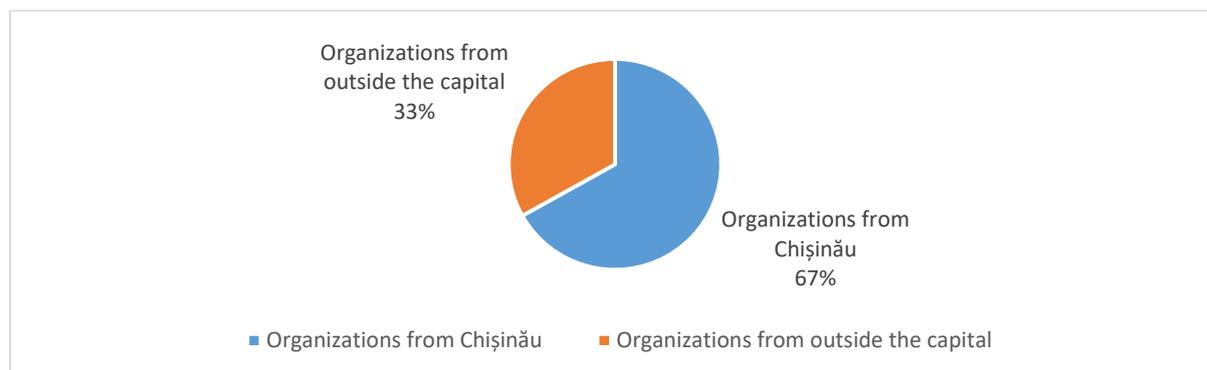


Figure 15. Territorial distribution of beneficiary organizations of the percentage mechanism in 2017

## 2% Amounts Designated

In 2017, the total amount designated by taxpayers, before validation, constituted **MDL 4,140,868.43**. Of this amount, **MDL 2,821,243.60** (circa 68%) were transferred to the beneficiaries after the validation of designations, while the amount of non-validated amounts constituted **MDL 1,319,624.83** (circa 32%).

On the average, in 2017, each taxpayer designated **MDL 195**, of which **MDL 174** were validated. Each beneficiary organization on the average received **MDL 9,342** after the validation of the designation amounts.



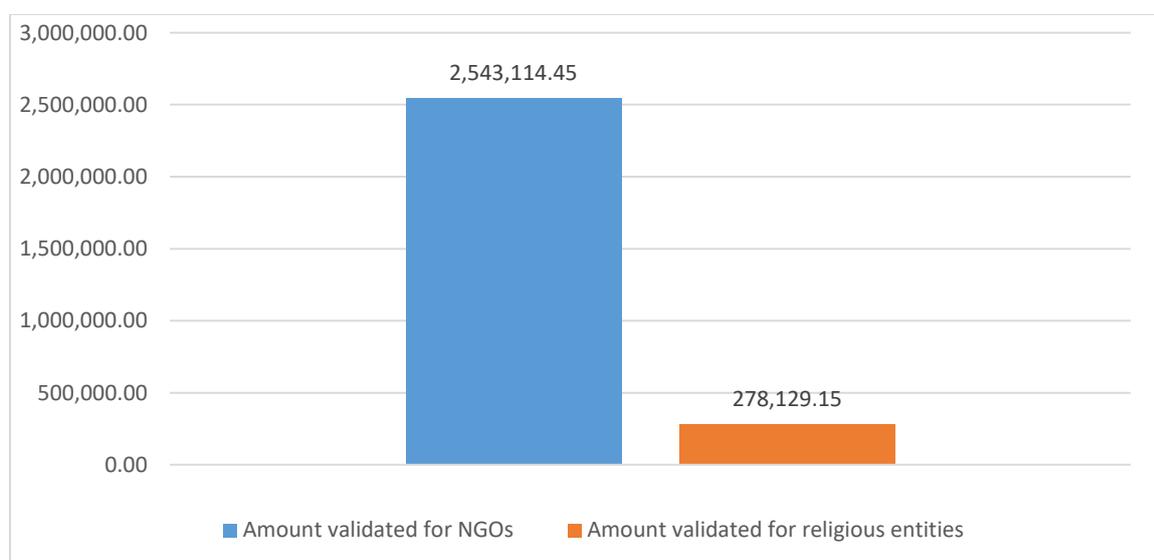
Figure 16. Percentage designation amounts in 2017

The total amount designated to NGOs in 2017, before validation, was **MDL 3,584,751.21**, which accounts for circa 87% of the total amount designated. The total amount designated to religious entities constituted **MDL 414,879.66** i.e. circa 10% of the total amount designated. The rest of MDL 141,237.56 (0.03%) were designated to beneficiaries who were not in the List of 2% Beneficiaries.

**Table 4. Amounts of percentage designations in 2017 by beneficiary categories**

Beneficiaries	Amount designated		
	Total	Non-validated	Validated
NGOs	3,584,751.21	1,041,636.76	2,543,114.45
Religious entities	414,879.66	136,750.51	278,129.15
Unidentified beneficiaries	141,237.56	141,237.56	0
<b>Total</b>	<b>4,140,868.43</b>	<b>1,319,624.83</b>	<b>2,821,243.60</b>

After the validation of designations, NGOs received **MDL 2,543,114.45**, which accounts for circa 90% of the total amount validated, and religious entities received **MDL 278,129.15**, i.e. circa 10% of the total amount of designations validated.



*Figure 1. Percentage designation amounts validated in 2017 by beneficiary categories*

The amounts of validated designations in 2017 from Chişinău-based taxpayers represented **MDL 1,278,244.12** i.e. circa 45% of the total amount validated. The taxpayers from the rest of the country designated, after validation, **MDL 1,542,999.48** i.e. approximately 55% of the total amount validated in 2017.

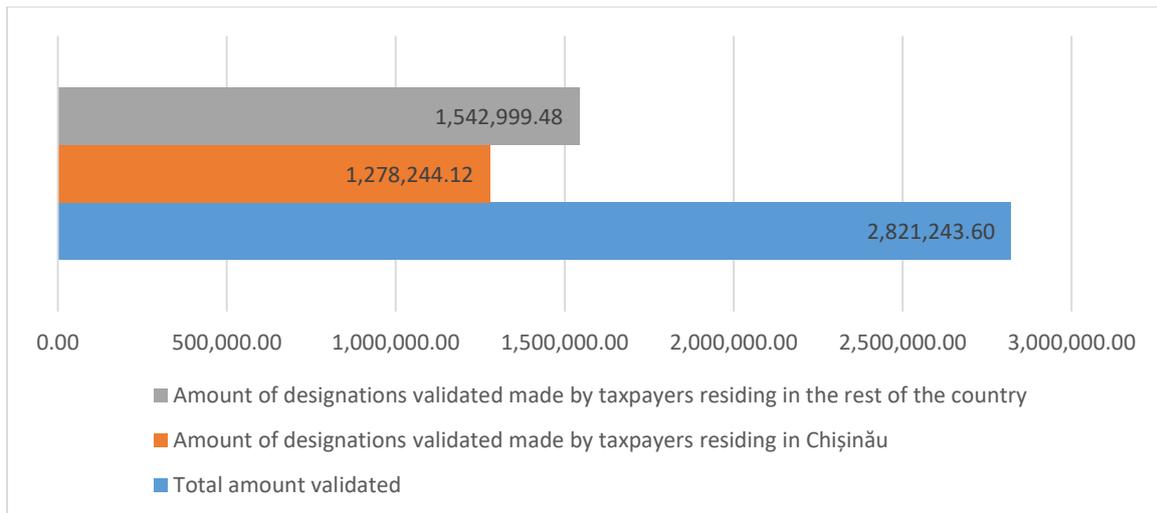


Figure 18. Percentage designation amounts validated in 2017 by taxpayers' residence

Although Chişinău-based taxpayers designated circa 45% of the total amount validated, the beneficiary organizations from Chişinău received the biggest amount – **MDL 2,425,632.65**, i.e. approximately 86% of the total amount validated. The organizations from the rest of the country received **MDL 395,610.95**, which accounts for about 14% of the total amount validated.

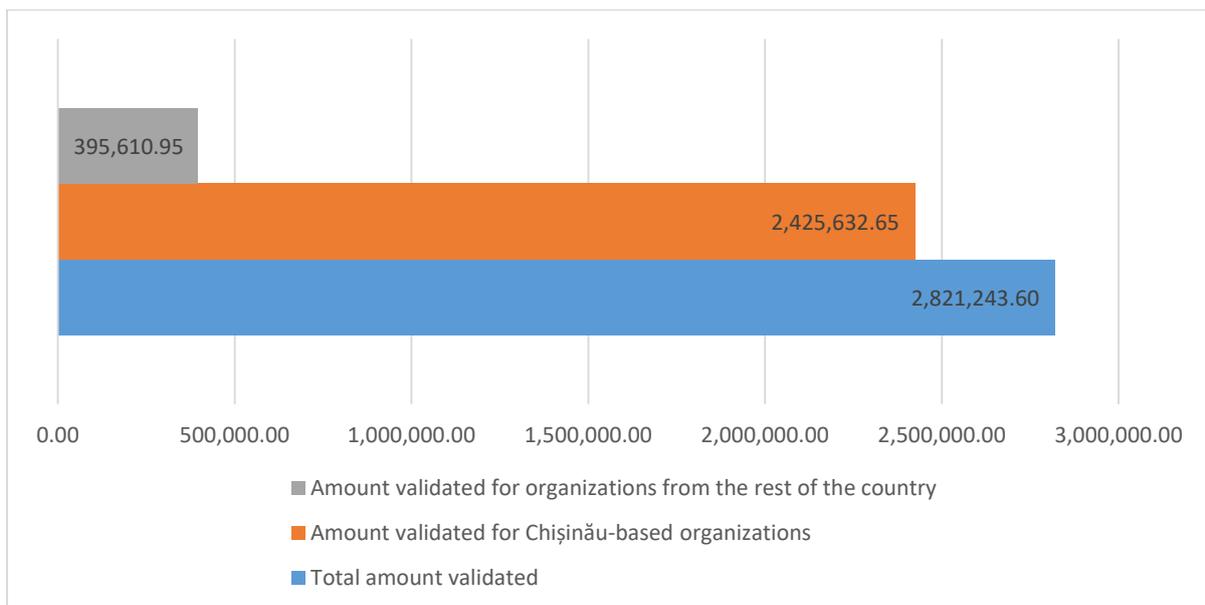


Figure 19. Percentage designation amounts validated in 2017 by premises of beneficiary organizations

The biggest percentage designation amount received by an organization in 2017 was **MDL 1,374,555.89**, which accounts for 49% of the total amount validated and for circa 54% of the amount validated for NGOs. The beneficiary of this amount was the Public Association of Veterans and Pensioners of the Moldovan Ministry of Interior.

The smallest amount designated (**MDL 1.01**) was designated to the Religious Community, the Penticostal Christian Church "Emanuel" from the village of Sărata-Galbenă, district of Hânceşti.

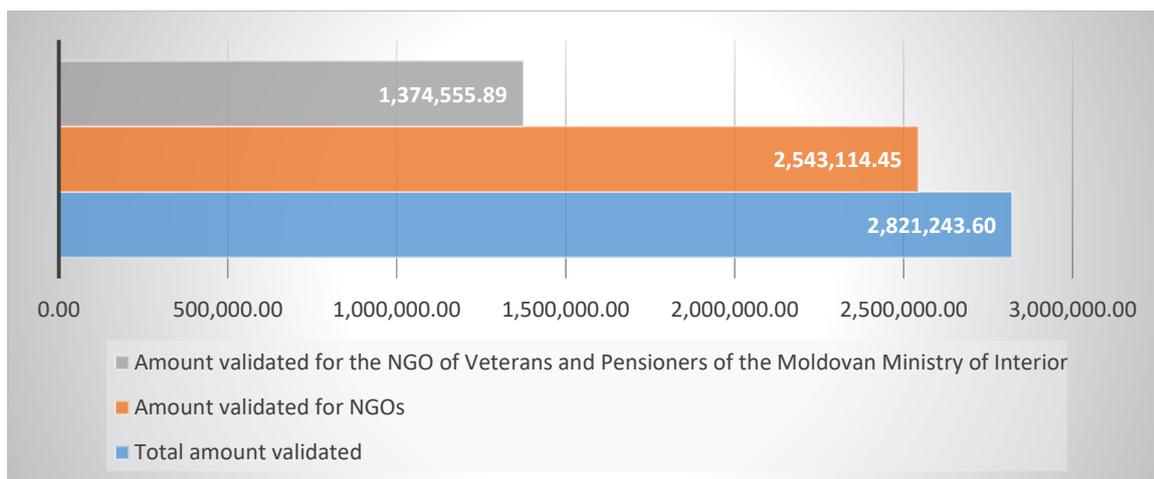


Figure 2. Amount of percentage designation validated in 2017 for the CSO of Veterans and Pensioners of the Moldovan Ministry of Interior

## Potential of the 2% Mechanism

In 2016, 1,219,500 of Moldovan individuals obtained taxable income and paid their income taxes.<sup>26</sup> Of them, only 21,204 designated 2% of their income tax to a noncommercial organization, which represents circa 1.7% of the total number of individuals who obtained income and paid income tax, and were entitled to designate 2% of their income tax.

The tax on the income obtained by individuals in 2016 constituted MDL 3,126,310,000.<sup>27</sup> Hence, there was the potential to designate 2% from this tax in 2017, which constituted MDL 62,526,200. In 2017, before validation, MDL 4,140,868.43 were designated as percentage designations, which represents circa 6.6% of the percentage designation potential.

In 2017, 1,207,500 Moldovan individuals obtained taxable income, 29,271 of whom chose to make percentage designations in 2018, i.e. circa 2.4 %. The tax on the income obtained in 2017 constituted MDL 4,190,000,000.<sup>28</sup> This means that the potential of the percentage designation amount in 2018 was of MDL 83,800,000. The amount of percentage designations made in 2018 was not known at the date of preparation of this report.

<sup>26</sup> National Bureau of Statistics, [www.statistica.md](http://www.statistica.md).

<sup>27</sup> State Tax Service, Individual income tax in 2016, 30 May 2016, page 5, <http://www.fisc.md/Upload/LinkedPDF/impozitul%20pe%20venit%20PF%202016.pdf>.

<sup>28</sup> State Tax Service, Individual income tax in 2017, 24 May 2017, page 6, [http://www.sfs.md/rapoarte\\_informatii.aspx?file=11170](http://www.sfs.md/rapoarte_informatii.aspx?file=11170).

**Table 5. Potential of the 2% mechanism in Moldova**

	2% designation potential	2% designations	%
<b>2017</b>			
<b>Number of taxpayers</b>	1,219,500	21,204	1.7%
<b>Percentage designation amount</b>	MDL 62,526,200	MDL 4,140,868.43	6.6%
<b>2018</b>			
<b>Number of taxpayers</b>	1,207,500	29,271	2.4%
<b>Percentage designation amount</b>	MDL 83,800,000	_29	_30

## Access to Information

The 2% mechanism is new in Moldova and therefore it is necessary to secure a higher accessibility of the information both for the taxpayers and for the beneficiary organizations. In 2018, the Ministry of Justice created the “2% Law” banner on its website (on the right side of the page).<sup>31</sup> When accessing this link one could find the List of 2% Beneficiaries, the sample request for registration in the List of 2% Beneficiaries, relevant legislation, and other information materials. The information is accessible and full. STS created a “Designate 2%”<sup>32</sup> banner on its website, which leads to many informative materials published on the website of a local NGO. Most people wishing to designate 2% would probably look for information on the STS website, because the designation is made by filing one’s income declaration at STS territorial offices. Although the creation of the banners is a positive thing, it is recommended that STS publish materials about the manner of designation and the 2% mechanism right on its website.

The 2% Regulation (p. 5) provides for publishing an annual statistical report on the designations that should include the number of taxpayers who have designated; the number of designations made in accordance with the law and the unauthorized ones; total amount of designations transferred to the beneficiaries; the information generalized territorially (according to the Classifier of Administrative-Territorial Units of Moldova) on the amounts transferred to designation beneficiaries; the list of beneficiaries who have been designated, indicating the amounts received by them. In 2017, STS published an annual statistical report on the percentage designations, which included all the data mentioned in the 2% Regulation.<sup>33</sup> At the same time, in order to have more accurate data about the results of the implementation of the 2% mechanism, and to make better quality analyses, it would be

<sup>29</sup> The data were not available when preparing this report.

<sup>30</sup> The data were not available when preparing this report.

<sup>31</sup> <http://justice.gov.md/index.php?l=ro>.

<sup>32</sup> <http://www.fisc.md/>.

<sup>33</sup> State Tax Service, Statistical Report on Percentage Designations in 2017, [http://www.sfs.md/rapoarte\\_informatii.aspx?file=10257](http://www.sfs.md/rapoarte_informatii.aspx?file=10257).

more useful that STS includes more detailed data in its report, which it has anyway, such as more detailed statistics about the taxpayers who made percentage designations, in terms of their age and sex, in order to make a more accurate picture of taxpayers active in the 2% mechanism; the number of designations made personally at STS offices, by rapid or electronic declarations, in order to assess taxpayers' declaration filing preferences; statistics on the reasons for the non-validation of designations and the number of non-validations for each reason; the total amount designated and the amount of designations that have not been validated – the current report only includes the amount of validated designations.

Each individual taxpayer who has designated 2% of their income tax is entitled, according to p.26 of the 2% Regulation, to request information from the STS about the validation or non-validation of their designation and the reason for the non-validation. This right grants more transparency to the implementation of the 2% mechanism.

At the same time, the 2% Regulation does not grant any rights whatsoever to the beneficiary organizations to obtain information about the taxpayers who made designations to them. However, in order to make a successful 2% information campaign, the organizations would need at least some statistical information that could guide them in their promotion efforts, such as the total number of taxpayers who made designations to them, including the validated and the non-validated designations; their sex and age; and where they live. In order to minimize the costs, a provision may be issued that such information be provided by email at the organization's request.

## Conclusions

The percentage designation mechanism is not enough to ensure the financial sustainability of noncommercial organizations. The 2% amounts received by the beneficiary organizations in 2017 prove it. The major benefits of the first years of implementation of the mechanism for CSOs are the beneficiary organizations' increased communication with the public and gaining new supporters rather than financial benefits.

The percentage mechanism is not fully known yet by the taxpayers, the beneficiary organizations, not even by certain representatives of the authorities. This may affect the percentage designation procedure and is a threat to the sustainability of the percentage mechanism. In order to popularize the 2% mechanism, information and promotion measures must be carried out by both the beneficiary organizations and the authorities. The authorities involved in the mechanism implementation should publish more accessible information on their websites and train tax officers in the percentage mechanism. At the same time, it is necessary to enhance CSO capacities of holding information campaigns.

The high number of non-validated designations (circa 24%) for the main reason of existence of income tax debts shows that there is a systematic problem in place that requires adequate tackling. It is necessary to take measures for explaining the need for checking one's income tax debts and how to pay them off as well as for post-factum informing about the validation or non-validation of designations by the tax authority.

In 2017, taxpayers had various experiences, both positive and negative, in the designation procedure. While some did not encounter challenges in the designation process, being assisted by the STS representatives as needed, others did face challenges. The interviewees signaled some irregularities they faced during the designation, and especially certain persons' intentions to influence taxpayers in making their designations to a certain organization or to not designate at all. Other taxpayers found out that the 2% rubric of their CET15 declaration had been filled in for them by the tax officer.

In 2017, some taxpayer categories were deprived of the right to make percentage designations such as those practicing professional activities (lawyers, notaries and bailiffs) and entrepreneurial activities. Excluding from the designation the persons who are entitled by the law to do is not justified and influences negatively the mechanism's capacity of serving as an indirect source of funding for the noncommercial sector.

The designation statistics shows that the potential of the 2% mechanism in Moldova is rather high: 1.7% of the total number of taxpayers entitled to designate did so in 2017, and their number grew to 2.4% in 2018. Only 5% of CSOs signed up for the percentage mechanism, which means they either did not know about this mechanism or did not have sufficient resources to organize 2% campaigns.

The annual statistical report on the percentage designations, published by STS, is very useful for the beneficiaries and for taxpayers. At the same time, having it filled with more detailed statistical information about the taxpayers profiles, different ways to file the CET15 declaration, the reasons for non-validating the designations, the total amount designated, and the non-validated amount, would enable more complete information about the implementation of the 2% mechanism. Although the taxpayers are entitled to request information about the validation or non-validation of their designations, the beneficiary organizations are not entitled to request any kind of information about the taxpayers who designated to them. It would be useful to issue some statistics to them about the taxpayers who designated them 2% in order to help them enhance their information campaigns.

## Recommendations

1. Organize campaigns for informing about and promoting the 2% mechanism, both at national and local levels, by the beneficiary organizations and by the authorities;
2. Strengthen authorities' role of informing about the possibility to participate in the percentage mechanism, including STS to post more detailed information about the 2% mechanism on its website;
3. Enhance CSOs capacities of carrying out campaigns for informing about and promoting the 2% mechanism;
4. The Ministry of Finance should complete the 2% Regulation with the express obligation of the authority that registers organizations in the List of 2% Beneficiaries to notify the already registered organization about having any debts and grant it time for paying them off, before removing them from the List of 2% Beneficiaries;
5. The STS should train their staff to be able to inform individual taxpayers about the possibility to designate to an organization from the List of 2% Beneficiaries and to not fill in the percentage designation column in the CET15 declaration without individual taxpayer's instruction;
6. The Ministry of Finance should amend the individual income declaration CET15, so that to enable the persons who practice professional or entrepreneurial activities to make percentage designations;
7. STS should notify the taxpayers whose designations have been or have not been validated, while the Ministry of Finance should amend the 2% Regulation in this sense, as follows:
  - a) Add p. 20<sup>1</sup> in the 2% Regulation, to read as follows: *"The State Tax Service shall notify the taxpayers whose percentage designations were not validated by mail/email/electronic service "taxpayer's single account" and indicate the reasons for the non-validation"*;
  - b) Add p. 24<sup>1</sup> in the 2% Regulation, to read as follows: *"After transferring the percentage designation amounts to the beneficiary organizations, the Tax State Service shall notify about it the taxpayers whose designations were validated by mail/electronic service "taxpayer's single account" and shall indicate the amount transferred and the name of the organization to which the money was transferred"*;
8. Take prevention measures to avoid canceling percentage designations due to taxpayers having income tax debts, such as:
  - a) The State Tax Service should instruct the tax officers that when the taxpayer makes its designation directly in the territorial tax offices to inform them about the reason for the non-validation, such as the existence of income tax debts, and to suggest to them to check the debts on the spot, or to inform them about the possibility to check their debts using the electronic governmental service Mpay.
  - b) The State Tax Service should include in the fiscal service "electronic declaration" an instruction about how to check and pay off one's income tax debts using the electronic governmental service Mpay;
9. Amend p. 25 of the 2% Regulation by adding the following data to be published in the annual STS annual statistical report on the percentage designation: *"age and sex of taxpayers who made percentage designations personally in the offices of the State Tax Service, through the rapid declaration or the electronic declaration; statistics about the reasons for non-validating designations and the number of non-validations for each reason; total amount designated and the amount of designations that were not validated"*;
10. Provide statistical information to the beneficiary organizations by including p. 26<sup>1</sup> in the 2% Regulation, to read as follows: *"The State Tax Service shall provide the following information to the organizations that received percentage designations, upon request, by e-mail: total number of taxpayers who designated to that organization, including validated and non-*

*validated designations; sex and age of taxpayers who designated to that organization; and the localities of their residence”.*